

Financial Investment Policy

September 2020

1. Context

- 1.1.1 This policy addresses only financial investment (investment to achieve the best financial return within an acceptable level of risk, as characterised by the Charity Commission) and does not address programme-related or mixed-motive investments (refer to Annex A).
- 1.1.2 In accordance with the Bye-Laws of the Society, Council of the Society is authorised to invest funds in excess of the probable expenses of the Society and to sell any of its stocks and securities for the purpose of a change of investment. The Treasurer is responsible for oversight of the proper financial management and control of the Society's income and expenditure including investments and funds on deposit. In conjunction with the Society's investment manager, oversight of investments is achieved through the Investment Committee, a reporting committee of the Finance and Planning Committee (FPC).
- 1.1.3 The Terms of Reference of the Investment Committee indicate that the Trustees of the Society, while having regard to the need to adhere to the requirement of charity law to maximise the return consistent with commercial prudence, will seek to ensure that investments are not made that are judged likely to alienate benefactors of the charity.
- 1.1.4 The Terms of Reference of the Investment Committee indicate that the Investment Committee's role is both advisory (to FPC) and executive (in respect of oversight of both the portfolio and investment manager's performance). This Financial Investment Policy is designed to expand upon the Investment Committee Terms of Reference by specifying in detail the context, objectives, portfolio requirements and governance framework within which the Investment Committee oversees the Society's financial investments and to ensure continued compliance with charity law requirements.

2. Introduction

2.1 General Background

- 2.1.1 The Society has an investment portfolio with a total value listed in Schedule 1. This excludes working capital and other funds on deposit in sterling and dollar-denominated accounts, also listed in Schedule 1, which do not presently fall within the Society's managed investment portfolio or the present mandate of the Investment Committee.
- 2.1.2 A review of the Society's liquidity needs and those funds which lie outside the managed investment portfolio is planned for 2018, which may lead to changes to the managed portfolio and mandate of the Investment Committee.

- 2.1.3 The investment portfolio consists of unrestricted, restricted and endowment funds, which make up a significant proportion of the Society's balance sheet fixed assets and overall value, as detailed in Schedule 1. The restrictions which apply are in respect of use of funds for Society activities, not in terms of the manner in which funds may be invested.

The Society does not hold all of its restricted and endowment funds within the investment portfolio and has to date utilised those monies held outside the portfolio in particular for expenditure in line with the purpose of specific restricted/endowment funds, meaning that it has not to date needed to liquidate investments for expenditure purposes. The review mentioned in 2.1.2 may lead to this situation changing in the future.

- 2.1.4 Annual income from the investment portfolio represents several percent of the Society's annual income, the bulk of which is derived from its publishing activities and Fellowship subscriptions. The investment portfolio's share of annual income also roughly approximates to the typical value of the Society's annual financial surplus before unrealised gains/losses on investments and foreign exchange.

2.2 Investment Objectives

- 2.2.1 The primary purpose of the Society's investment portfolio is to provide income and capital resources to support the current and future aims of the Society. Financial investments will be made to achieve the best financial return within an acceptable level of risk.
- 2.2.2 The Society aims to grow the long term value of its investment portfolio in real terms with reference to the retail price index (RPI) whilst also receiving annual income/cash of upto 4% of the capital value of the portfolio. The annual income/cash would be generated from a combination of dividend received from investment holdings, and capital withdrawals. Desired annual receipts from the portfolio will be determined through the annual budget process and would not normally exceed 3.5 - 4% of the capital value per year, assessed over a 5 year rolling period. A 4% annual receipt could require capital withdrawals that would not normally exceed 1% of the value of the portfolio on a 5 year rolling basis. Thus the Society's target is simply stated as long term growth in capital value in excess of inflation plus 4%. On a 5 year rolling basis, up to 4% per annum (circa 3% dividend, 1% capital realisation) can be withdrawn or retained and re-invested in the investment fund.

2.3 Investment Powers and Governance

- 2.3.1 The Trustees have delegated to the Finance and Planning Committee (FPC) the task of ensuring that all monies and investments held in the Society's various funds are properly managed. Direct oversight of the investment portfolio is conducted by the Investment Committee, which reports to the FPC. The Society's funds on deposit outside of the managed investment portfolio are not within the responsibility of the Investment Committee and remain as the remit of FPC.

- 2.3.2 The Investment Committee is responsible to FPC for the performance of the investment portfolio and of the investment managers appointed to advise and manage the portfolio, including:
- Responsibility for ensuring the investment manager's compliance with the agreed investment mandate and for changes to the portfolio and investment strategy, within the detailed requirements and limitations imposed by this Investment Policy;
 - Advising FPC on investment policies, including risk profile, and on targets for income generation from investments;
 - The appointment of investment managers who are knowledgeable and competent in the provision of investment advice;
 - Periodic review of the performance of the investment managers to ensure that the advice given is adequate to discharge the responsibilities of the Investment Committee and to ensure compliance with the Society's Investment Policy;
 - Monitoring the performance of the investment managers against targets/ benchmarks;
 - Advising the Finance and Planning Committee on expected short term (c. 1 year) and long term (5 years +) performance of the Society's investment assets for both income generation and capital growth.
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- 2.3.3 Through these delegations, the legal requirements on Trustees¹, as summarised below, are deemed to be satisfied:
- To use their skills and knowledge and take advice from individuals experienced in investment management where needed;
 - To select investments that are right for the Society (reflecting diversification and suitability i.e. the investment type or class and suitability of the investment within that type or class).

[Note 1: per the Charities (Protection and Social Investment) Act 2016]

3. Risk

3.1 Attitude to risk

- 3.1.1 Whilst the Society neither depends upon, nor hypothecates, income from its investment portfolio, investment income at or around targeted levels is assumed in the Society's annual expenditure budget. Since it is a small share of the Society's annual income, the Society can tolerate moderate volatility in annual income.
- 3.1.2 Long term maintenance of the portfolio value in real terms is an important objective and Trustees and members of the Investment Committee understand that in realising this objective, the capital value will fluctuate significantly over short to medium term timelines.
- 3.1.3 Key risk metrics of the portfolio, based on a backward-looking assessment of the historic performance of a comparable portfolio, are provided in Schedule 1.

3.2 Assets

- 3.2.1 The Society's assets can be invested widely and should be diversified by asset class, by manager and by security. Asset classes could include cash, bonds, equities, property, hedge funds, structured products, private equity, commodities and any other asset that is deemed suitable for the Society.

- 3.2.2 The Investment Committee are charged with agreeing with the investment managers a suitable allocation strategy for asset classes identified in 3.2.1, in order to achieve the overall investment objective. Asset allocation is detailed in Schedule 1.
- 3.2.3 Assets will be diversified across bonds, equities, commercial properties and alternatives and will be a mixture of direct holdings (typically UK equities and government bonds), pooled holdings and third party pooled holdings (corporate bond funds, international equities, alternatives, etc.).

3.3 Currency

- 3.3.1 The base currency of the investment portfolio is Sterling.
- 3.3.2 The Investment Committee will decide with the investment manager the overall portfolio weighting to Sterling (refer to Schedule 1).
- 3.3.3 The Investment Committee will decide with the investment manager a suitable approach to currency hedging, to be reviewed annually.

3.4 Credit/Counterparty

- 3.4.1 The Investment Committee will decide with the investment manager appropriate credit and counterparty limitations such as the minimum credit rating of a bond issuer or deposit taking institution, maximum amount to be invested or deposited with a single institution, etc.

4. Liquidity Requirements

- 4.1.1 The Society does not rely upon its investment fund to cover its day-to-day liquidity needs and holds sufficient funds on deposit such that it has no requirement for liquidity reasons to hold a minimum percentage of its investment portfolio in cash.
- 4.1.2 Notwithstanding 4.1.1, the asset allocation prescribed by 3.2.2/Schedule 1 ensures that the majority of the Society's investment portfolio is capable of being realised at short notice.

5. Time Horizon

- 5.1.1 The Society's investment portfolio is expected to maintain its value in real terms over the long term and should be managed in line with this objective.

6. Responsible Investment Policy

- 6.1.1 Investments should be consistent with the Society's values and ethos and neither conflict with its aims nor have the potential to cause the Society to lose supporters or beneficiaries. The Society seeks to be a responsible investor, having considerable regard for environmental, social and corporate governance (ESG) considerations in the prioritisation of suitable 'best-in-class' investments.

6.1.2 In respect of extractive industry companies, the Society's investments should be made into well managed, responsible companies undertaking, or demonstrably working towards, sustainable extraction. Investment in fossil fuel companies should prioritise those leading companies seeking to reduce their carbon footprint and in the vanguard of strategic and operational change towards meeting Paris Accord goals.

6.1.3 The Trustees have adopted an exclusionary policy as detailed below:

Theme	Exclusion
High emissions fossil fuels extraction and utilisation	<p>Companies deriving material revenue from coal and/or high emissions oil, as detailed below, except where CCS and/or operating practices reduce emissions in line with global norms:</p> <p>A. Coal: thermal (but not metallurgical) coal production and/or utilisation in power generation; B. High emissions oil extraction: production of tar sands/steam assisted crude production/crude from upgraded bitumen</p> <p>Mitigating factors: the above exclusions can be overruled where relevant mitigating factors are recognized. Examples might be a company converting coal-fired power plant to lower emissions fuels, or when high emissions assets are in a divestment process (and exceptionally if the divestment is likely to lead to a significant deterioration in ESG performance).</p>
Egregious environmental, social or governance (ESG) performance	Relative to accepted international standards, clear/persistent breaches of environmental and social norms of behaviour, unethical business practices, persistent illegality and/or a failed governance structure.
Other exclusions	<p>A. Companies that are involved in the production of illegal/indiscriminate weaponry or the production and/or manufacture of tobacco.</p> <p>Companies that derive material revenue from socially harmful activities e.g. gambling, adult entertainment or the manufacture of arms or alcohol.</p>

- 6.1.4 The appointment and ongoing monitoring of investment managers will include an assessment of the investment manager's adherence to the principles of the Financial Reporting Council's UK Stewardship Code and the Principles for Responsible Investment (PRI). The Society will require its investment manager to be a recognised Tier One signatory to the UK Stewardship Code and a formal signatory to the PRI.
- 6.1.5 The Society's investment manager will be expected to display 'best practice' in the environmental, social and corporate governance (ESG) stewardship of investments held on the Society's behalf as exemplified by their continued conformance with the codes and principles listed in item 6.1.4. The Investment Committee will monitor the investment manager's continued compliance with these requirements.

7. Management, Reporting and Monitoring

- 7.1.1 The Society will appoint a professional investment management firm to manage the investment portfolio on a discretionary basis in line with this policy. The investment manager will provide for custody of assets via a bank to be approved by investment committee. Managers are required to produce a valuation and performance report and to present to the Investment Committee on a quarterly basis. The Society will maintain a list of upto six authorised signatories, two of whom will be required to sign instructions to the investment manager; one member of staff and one Trustee.
- 7.1.2 Outside the portfolio managed by the designated fund manager per Schedule 1, the Society holds a single investment, the management of which unavoidably remains with the Society's former investment managers, UBS, pending completion of liquidation of the investment. The Director of Finance and Operations monitors the performance of this investment based on regular reports from UBS which are consolidated into the quarterly reviews of overall portfolio performance.
- 7.1.3 The Investment Committee is responsible to the Finance and Planning Committee FPC on behalf of Trustees for oversight of the performance of the appointed investment manager and of the investment portfolio within the constraints imposed by this Investment Policy and the Investment Committee's Terms of Reference. The committee meets quarterly to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks (per Schedule 1), and against the investment objective outlined above.
- 7.1.4 FPC receives minutes of the quarterly Investment Committee meetings and the forecast capital and income performance of the investment portfolio is reported to meetings of the FPC through the Society's management accounts.
- 7.1.5 The Investment Committee will report formally to the FPC and Trustee board (Council) on an annual basis. This report will include a review of asset allocation strategy, performance, risk profile and consistency with long term investment objective.
- 7.1.6 In addition to the performance of the Society's investments, an outline of the Society's investment policy will be contained within the Society's annual report.

7.1.7 Approximately every 5 years, Investment Committee will consider whether it is appropriate to re-tender the role of the Society's investment manager. If the decision is to do so, Investment Committee will liaise with the Society's Director of Finance and Operations to undertake a competitive tender process to select a suitable investment manager, which could include retention of the incumbent.

8. Approval and review

8.1.1 This Investment Policy was prepared by the Investment Committee of the Geological Society to provide a framework for the management of its investment assets for the ultimate approval of the Council of the Society. It will be reviewed on an annual basis to ensure continued appropriateness.

Approved by the Investment Committee

Signed:  Date: 18th September 2020

Approved by the Council of the Geological Society
Date: 8th September 2020